

Development Bank of Southern Africa Ltd.

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Development Bank of Southern Africa Ltd.

Credit Highlights

Issuer Credit Rating

Foreign Currency

BB-/Stable/B

Local Currency

BB/Stable/B

Key strengths	Key risks
Almost certain likelihood of support from the South African government.	High single-obligor concentrations.
Critical role in developing the South African government's infrastructure development and carbon transition plans.	Volatile earnings, partly due to the bank's countercyclical nature and developmental mandate.
Capital and earnings that support the bank's financial position.	Some exposure to high-risk projects in sub-Saharan Africa region.

Outlook

The stable outlook on Development Bank of Southern Africa Ltd. (DBSA) mirrors that on South Africa. Our ratings on DBSA will move in conjunction with those on the sovereign as long as we assess the likelihood of extraordinary support is almost certain.

Downside scenario

We could downgrade DBSA following a similar rating action on South Africa. Pressure on the rating could also build if the bank's public policy role or its link with the government were to weaken over the next 12 months.

Upside scenario

We could raise the ratings on DBSA if we were to upgrade South Africa. We do not expect to rate DBSA higher than the sovereign.

Rationale

We equalize our ratings on DBSA with those on South Africa. This reflects our opinion that there is an almost certain likelihood that the South African government (foreign currency BB-/Stable/B, local currency BB/Stable/B) would provide timely and sufficient extraordinary support to DBSA in the event of financial distress. Consistent with our criteria for government-related entities, our view of the likelihood of extraordinary government support stems from DBSA's:

- Critical role as one of the South African government's primary vehicles to promote public and private infrastructure projects, and drive sustainable development in the country and regional integration; and
- Integral link with the South African government, through its 100% ownership of the bank, ongoing government supervision, and capital injections when required.

The Development Bank of Southern Africa Act of 1997 (DBSA Act) enacted by South Africa's parliament set out DBSA's mandate, as well as the constitution and conduct of the DBSA Board of Directors. Between 2012 and 2015, the government injected South African rand (ZAR) 7.9 billion (about \$0.5 billion) into DBSA (amounting to roughly 8% of the asset base), reinforcing the government's support for DBSA as the bank's full owner. DBSA also has callable capital of ZAR20 billion that can boost its capital base. In addition, section 19 of the DBSA Act states that the bank cannot be wound up except through an act of parliament. In August 2021, the former DBSA Chairman, Enoch Godongwana, was appointed as South Africa's minister of finance, highlighting the close links between the two institutions. The finance minister is the governor of DBSA and responsible for appointing DBSA's board members. Most recently, in April 2023, Boitumelo Mosako was appointed as new CEO of DBSA.

Moreover, we recognize DBSA's role as one of the government's key vehicles for delivering infrastructure development and meeting strategic policy goals intended to support sustainable economic growth.

DBSA is mandated to promote economic development and growth, human resources development, institutional capacity building, and the support of development projects and programs in the African continent. The bank finances infrastructure in the public and private sectors. The integral link between the government and DBSA is further underpinned by DBSA, the National Treasury, and the Department of Public Works reaching an agreement in 2021 to set up the Infrastructure Fund, which will be the single biggest blended finance institution in South Africa. We expect the National Treasury will allocate ZAR100 billion over ten years to fast-track infrastructure and development projects. Its implementation unit sits within DBSA.

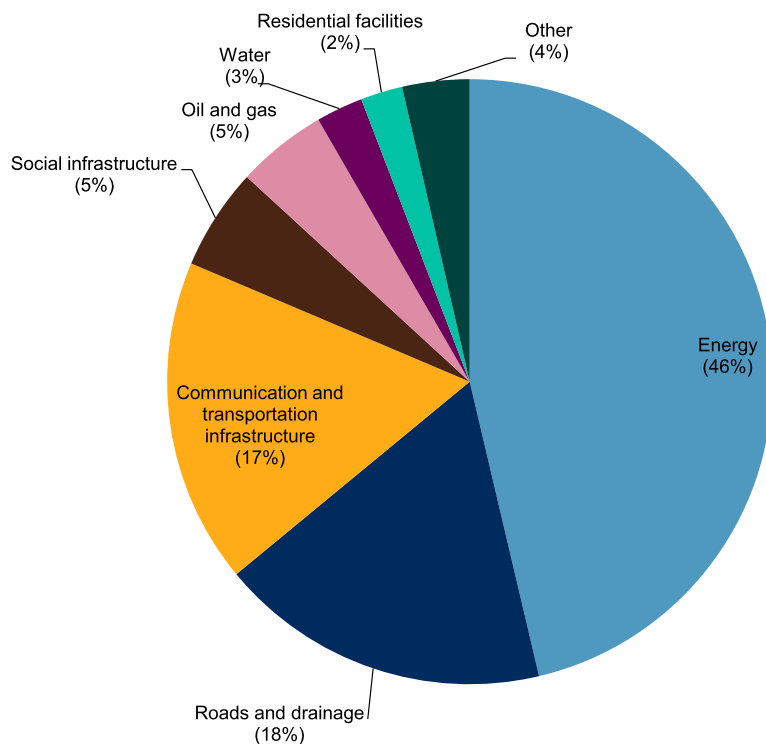
The bank plans to increase lending to poorer under-resourced municipalities and the water sector to help close infrastructure gaps. It is, however, limited by the availability and readiness of those entities to create viable, financeable projects. Consequently, DBSA's support to such municipalities often takes the form of technical-assistance grants, capacity-building initiatives, and overall project support.

In the context of South Africa's goal to reach net zero emissions by 2050, DBSA will play a key role in providing green financing. The bank issued two green bonds in 2021 of €200 million and ZAR3 billion both through private placements. The proceeds will finance DBSA's renewable energy generation and transmission projects. DBSA intends to play a catalyst role as an investor in green and carbon transition projects across Africa, including embedded generation of renewable energy.

In 2015, the government of South Africa gave DBSA a broader mandate to provide lending and support across the whole of Africa, extending beyond the previously mandated region of the Southern African Development Community, where DBSA primarily focused on infrastructure finance projects that linked the region economically. Despite this wider mandate, we expect DBSA to remain mainly concentrated in South Africa, which will make up about 60% of its loan book, with projects outside limited to approximately 40%. DBSA has active exposure in 16 countries. Its loan portfolio is mostly exposed to the energy sector (see chart 1).

Chart 1

DBSA's loan portfolio breakdown by sectors (as of Sep. 30, 2022)



Source: S&P Global Ratings.

Because we equalize our long-term ratings on DBSA with those on the sovereign, we do not consider the company's stand-alone credit profile to be a key rating driver. This is because, in our view, DBSA executes strategic government policies, the likelihood of extraordinary government support is almost certain, and we do not believe such support is likely to diminish.

Nevertheless, while fulfilling government policy initiatives, DBSA is also guided by financial sustainability, as required by its structure and its sole shareholder, the South African government. It tries to blend its financial sustainability with the wider goals of enhancing economic growth and regional integration.

We view DBSA's strong capital base as a supporting factor to its financial position. We assess DBSA's capital and earnings as very strong. On March 31, 2022, the risk-adjusted capital (RAC) ratio before adjustments was around 18.8%. Based on the performance of the bank during the first half of fiscal year (FY) 2023 (ending Sept. 30, 2022), we estimate the RAC ratio will be 20.3%. We expect the RAC ratio to remain stable, ranging between 19%-20% over the next 12-18 months. We consider the bank's earnings to be volatile because of its counter-cyclical nature and developmental mandate.

We believe DBSA's risk position remains under pressure, given the challenging macroeconomic environment in South

Africa and the rest of Africa. Therefore, we expect its asset-quality metrics will weaken. We forecast credit losses will increase to about 1.4% in FY2024. The nonperforming loans (NPLs) ratio, which includes Stage 3 loans and purchased or originated credit-impaired (POCI) loans, was 6% (4.8% excluding POCI loans) as of end-September 2022. NPLs outside of South Africa remain high and make up the majority of DBSA's NPLs. We also note the high single-obligor concentration within the loan portfolio and believe pressure could emerge on asset quality should the portfolio deteriorate. The 20 largest loans accounted for nearly 72% of total loans and more than 150% of total adjusted capital on March 31, 2022.

However, we recognize DBSA's role as a development bank is to act countercyclically, and note its improved risk management in recent periods, in terms of loan underwriting, surveillance, and recovery.

Table 1

Development Bank of Southern Africa Ltd.--Key figures					
(Mil. ZAR)	--Fiscal year end Mar. 31--				
	YTD Sep.-2022	2022	2021	2020	2019
Adjusted assets	108,046	99,965	99,966	100,385	89,405
Customer loans (gross)	101,806	95,895	94,115	96,448	82,012
Adjusted common equity	45,524	42,745	38,937	37,522	37,065
Operating revenues	4,157	6,281	3,863	5,381	5,619
Noninterest expenses	778	1,307	1,154	1,270	1,054
Core earnings	2,823	3,970	1,544	478	3,124
Return on average common equity (%)	12.57	9.32	3.71	1.35	8.66
Growth in customer loans (%)	12.33	1.89	(2.42)	17.60	2.68
Total managed assets/adjusted common equity (x)	2.37	2.34	2.57	2.68	2.41
New loan loss provisions/average customer loans (%)	1.12	1.06	1.22	4.07	1.78
Gross nonperforming assets/customer loans + other real estate owned (%)	6.04	5.79	7.74	7.23	4.89
Loan loss reserves/gross nonperforming assets (%)	195.50	210.83	155.97	146.16	154.45

YTD--Year to date. ZAR--South African rand.

Table 2

Development Bank of Southern Africa Ltd.--Funding and liquidity (%)					
(Mil. ZAR)	--Fiscal year end Mar. 31--				
	YTD Sep.-2022	2022	2021	2020	2019
Long-term funding ratio	84.53	84.66	88.42	80.31	75.03
Stable funding ratio	92.27	92.03	97.96	84.49	79.88
Broad liquid assets/total assets	10.74	9.55	10.67	6.23	6.46

YTD--Year to date. ZAR--South African rand.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

Related Research

- South Africa Outlook Revised To Stable As Infrastructure Constraints Weigh On Growth; 'BB-/B' FC Ratings Affirmed, March 8, 2023

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found in "Development Bank of Southern Africa Ltd. Outlook Revised To Stable From Positive After Similar Sovereign Action," published March 15, 2023, on RatingsDirect.

Glossary

- Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.
- Customer loans (gross): Total customer loans before loan loss reserves.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the credit rating on the entity.
- Earning capacity: The capacity of a bank to generate sufficient earnings against losses and the primary way that a bank builds or maintains its capitalization.
- ESG credit indicators: ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.
- Government-related entity (GRE) support: An assessment of the likelihood that the government would provide extraordinary support to a bank that is a government-related entity.

- Issuer credit rating: A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full as they come due.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.

Ratings Detail (As Of June 27, 2023)*

Development Bank of Southern Africa Ltd.

Issuer Credit Rating

<i>Foreign Currency</i>	BB-/Stable/B
<i>Local Currency</i>	BB/Stable/B

Issuer Credit Ratings History

15-Mar-2023	<i>Foreign Currency</i>	BB-/Stable/B
01-Jun-2022		BB-/Positive/B
11-May-2020		BB-/Stable/B
26-Nov-2019		BB/Negative/B
15-Mar-2023	<i>Local Currency</i>	BB/Stable/B
01-Jun-2022		BB/Positive/B
11-May-2020		BB/Stable/B
26-Nov-2019		BB+/Negative/B

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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